

CASS DISTRICT LIBRARY

**FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION**

For the Year Ended December 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|-----------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name CASS DISTRICT LIBRARY | County CASS |
| Audit Date 12/31/04 | Opinion Date 1/21/05 | Date Accountant Report Submitted to State: 2/16/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

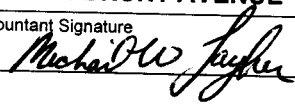
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASL GU). | | | ✓ |

| | | | |
|---|--|---------------------------|------------------------|
| Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS | | | |
| Street Address 805 VAN BRUNT AVENUE | | City ST. JOSEPH | State MI |
| Accountant Signature  | | ZIP 49085 | Date 2/16/05 |

LIBRARY BOARD MEMBERS

| | | | |
|----------------|-------------------|--|----------|
| President | Eileen Adams | Howard Township | 12-31-05 |
| Vice President | Grafton Cook | Pokagon, Milton & Jefferson Townships | 12-31-07 |
| Treasurer | Hank Yeomans | At Large | 12-31-04 |
| Trustee | Mary Anne Hoebeke | Village of Edwardsburg | 12-31-07 |
| Trustee | Sue Toth | Mason Township | 12-31-05 |
| Trustee | Mary Dunn | LaGrange Township | 12-31-08 |
| Trustee | Robert Mette | Ontwa, Calvin & Porter Townships | 12-31-05 |
| Trustee | Ronald Francis | Volinia, Penn, and, Newberg Townships | 12-31-08 |

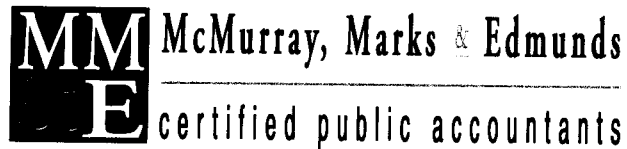
EXECUTIVE DIRECTOR

Jennifer Ray

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cass District Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cass District Library as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Cass District Library as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model as required by the Governmental Accounting Standards Board Statement Number ("GASB") No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments* as of January 1, 2004.

The management discussion and analysis and budgetary comparison information on pages 2 through 4 and page 16, are not a required part of the basic financial statements, but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds

January 21, 2005

As management of the Cass District Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2004. In the future, comparative analysis will be provided when prior year information is available.

FINANCIAL HIGHLIGHTS

- ✓ The assets of the library exceeded its liabilities at the close of the most recent year by \$518,563. of this amount, \$187,318 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- ✓ The library's total net assets decreased by \$42,501.
- ✓ As of the close of the current year, the Library's governmental fund reported a ending fund balance of \$193,313. For this year revenues exceeded expenditures by \$12,577. All is available for spending, with some board designations that can be changed.
- ✓ At the end of the current year, unreserved fund balance for the general fund was \$193,313, or 21.99% of the total general fund expenditures.

OVERVIEW OF FINANCIAL STATEMENT

This annual report consists of three parts – *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the library:

- The first column of the financial statement includes information on the Library's general fund under the modified accrual method. The *fund financial statements* focus on the current financial resources and provide a more detailed view about the accountability of the library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *library as whole financial statement* column provides both *long-term* and *short-term* information about the Library's overall financial status. The statement of net assets and the statement of net activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve overtime as a useful indicator of the government's financial position. In the case of the library, assets exceeded liabilities by \$518,563 at the close of the most recent year. The largest portion of the Library's net assets are reflected in its investment in capital assets, less any related debt used to acquire those assets. The Library uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following table compares key financial information in a condensed format:

| | |
|---|---------------------------|
| Current Assets | \$ 904,922 |
| Capital Assets, net | 418,622 |
| Total Assets | <u>\$ 1,323,544</u> |
| Long-Term Debt | \$ 93,372 |
| Other Liabilities | 711,609 |
| Total Liabilities | <u>\$ 804,981</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | \$ 331,245 |
| Unrestricted | 187,318 |
| Total Net Assets | <u><u>\$ 518,563</u></u> |
| Revenues: | |
| Taxes | \$ 654,946 |
| Other | 236,429 |
| Total Revenues | <u>\$ 891,375</u> |
| Expenses-Library services | <u>933,876</u> |
| Change in Net Assets | <u><u>\$ (42,501)</u></u> |

The unrestricted net assets of \$187,318 may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current year, the Library is able to report positive balances in both categories of net assets for its governmental activities.

The Library's net assets decreased by \$42,501 mostly from increased depreciation costs and uncapitalized capital outlay, as well as, slight increases in payroll costs and the related benefits.

The Library's governmental revenues decreased by \$10,900 and expenses increased by \$28,203 during the year.

GOVERNMENTAL FUND ANALYSIS

As noted earlier, the library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Fund. The focus of the Library's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Library's governmental fund reported ending fund balance of \$193,313, an increase of \$12,577. All of the fund balance constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The general fund is the only operating fund of the Library.

LIBRARY BUDGETARY HIGHLIGHTS

There were no significant differences between the original budget and the final amended budget other than decreases of \$9,055 for utilities and \$7,950 for repairs and maintenance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At December 31, 2004, the Library had investment in capital assets for its governmental activities of \$418,622 (net of depreciation). This investment includes a broad range of capital assets, including library books, audio, buildings, furniture, and computer equipment. The Library expects that additions for 2005 will be the same or slightly higher than 2004.

LONG-TERM DEBT

At December 31, 2004, the Library had total debt outstanding of \$93,372. This consisted of \$87,377 owed on a note and \$5,995 of accrued vacation, with no new debt incurred during the year. The Library did pay an additional \$20,000 of principal during the current year.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Library's goal is to maintain and enhance the services that are provided to the public utilizing the most efficient and effective methods. The Library has a conservative and financially prudent budget for the 2005 calendar year that will promote several of the Library's activities and programs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cass District Library, 319 M-62; Cassopolis, Michigan 49031.

CASS DISTRICT LIBRARY**Balance Sheet – Statement of Net Assets
December 31, 2004**

| | <i>General Fund Balance Sheet- Modified Accrual</i> | <i>Adjustments (Note 2)</i> | <i>Library as a Whole Statement of Net Assets- Full Accrual</i> |
|--|---|---------------------------------|---|
| Assets | | | |
| Cash and cash equivalents (Note 3) | \$ 222,822 | \$ - | \$ 222,822 |
| Receivables (Note 12) | 682,100 | - | 682,100 |
| Capital Assets-Net of Accumulated Depreciation (Note 5) | - | 418,622 | 418,622 |
| Total Assets | \$ 904,922 | \$ 418,622 | \$ 1,323,544 |
| Liabilities and Fund Balance | | | |
| Liabilities | | | |
| Accounts Payable (Note 12) | \$ 13,407 | \$ - | \$ 13,407 |
| Accrued Liabilities | 16,102 | - | 16,102 |
| Deferred Revenue | 682,100 | - | 682,100 |
| Long-Term Debt, current portion | - | 12,899 | 12,899 |
| Total Current Liabilities | \$ 711,609 | \$ 12,899 | \$ 724,508 |
| Long-Term Debt, net of current portion | - | 80,473 | 80,473 |
| Total Liabilities | \$ 711,609 | \$ 93,372 | \$ 804,981 |
| Fund Balance/Net Assets | | | |
| Unreserved Fund Balances: | | | |
| Designated for vehicle purchase | \$ 9,000 | \$ (9,000) | \$ - |
| Designated for vacation accrual | 14,934 | (14,934) | - |
| Designated for technology | 16,000 | (16,000) | - |
| Designated for capital improvements | 10,000 | (10,000) | - |
| Designated for main library | 15,000 | (15,000) | - |
| Undesignated | 128,379 | (128,379) | - |
| Total Fund Balance | \$ 193,313 | \$ (193,313) | \$ - |
| Total Liabilities and Fund Balance | \$ 904,922 | \$ (99,941) | |
| Net Assets | | | |
| Invested in Capital Assets-Net of Debt | | \$ 331,245 | \$ 331,245 |
| Unrestricted | | 187,318 | 187,318 |
| Total Net Assets | | \$ 518,563 | \$ 518,563 |

CASS DISTRICT LIBRARY**Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities
December 31, 2004**

| | <i>General Fund Revenues and Expenditures- Modified Accrual</i> | <i>Adjustments (Note 2)</i> | <i>Library as a Whole Statement of Activities- Full Accrual</i> |
|---|---|---------------------------------|---|
| Revenues: | | | |
| Taxes | \$ 654,946 | \$ - | \$ 654,946 |
| State Sources | 31,437 | - | 31,437 |
| Penal Fines | 146,474 | - | 146,474 |
| Fees and Book Fines | 3,988 | - | 3,988 |
| Investment Income | 5,485 | - | 5,485 |
| Local Contributions and Other | 49,045 | - | 49,045 |
| | <u>\$ 891,375</u> | <u>\$ -</u> | <u>\$ 891,375</u> |
| Expenditures: | | | |
| Salaries | \$ 405,081 | \$ (2,551) | \$ 402,530 |
| Payroll taxes | 29,109 | - | 29,109 |
| Employee benefits | 85,570 | - | 85,570 |
| Staff training | 4,649 | - | 4,649 |
| Office supplies | 16,653 | - | 16,653 |
| Audiovisual, books, and periodicals | 76,350 | (76,350) | - |
| Professional fees | 11,105 | - | 11,105 |
| Contractual services | 34,680 | - | 34,680 |
| Membership and recruitment | 10,568 | - | 10,568 |
| Internet service | 13,822 | - | 13,822 |
| Insurance | 13,529 | - | 13,529 |
| Processing costs | 7,823 | - | 7,823 |
| Travel | 6,108 | - | 6,108 |
| Programs | 8,479 | - | 8,479 |
| Utilities | 57,437 | - | 57,437 |
| Repairs and maintenance | 32,160 | - | 32,160 |
| Miscellaneous | 4,885 | - | 4,885 |
| Principal payments | 26,904 | (26,904) | - |
| Interest payments | 7,327 | - | 7,327 |
| Depreciation | - | 178,848 | 178,848 |
| Capital expenditures | 26,559 | (17,965) | 8,594 |
| Total expenditures | <u>\$ 878,798</u> | <u>\$ 55,078</u> | <u>\$ 933,876</u> |
| Excess (deficit) of revenues over (under expenditures) | <u>\$ 12,577</u> | <u>\$ (55,078)</u> | <u>\$ (42,501)</u> |
| Fund Balance/Net Assets-Beginning of Year | <u>180,736</u> | | <u>561,064</u> |
| Fund Balance/Net Assets-End of Year | <u>\$ 193,313</u> | | <u>\$ 518,563</u> |

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cass District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective January 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). Some of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting Entity

The Library is located in the City of Cassopolis, Michigan and is governed by a eight (8) member board. The Library is primarily funded through a tax levy, fines, fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the Townships of LaGrange, Howard, Volinia, Penn, Newberg, Mason, Pokagon, Milton, Jefferson, Ontwa, Calvin, and Porter and the Village of Edwardsburg. Based on the significance of any operational or financial relations with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Government-wide Financial Statements, Continued**

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets--net of related debt; restricted net assets; and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The **General Fund** is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Capital Assets – Capital assets are defined by the Library as assets with an estimated useful life in excess of one year and exceed \$2,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**Assets, Liabilities, and Net Assets or Equity, Concluded****Capital Assets, Concluded**

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------------|---------------|
| Buildings | 20 – 50 years |
| Building improvement | 10 – 20 years |
| Furniture and fixtures | 5 – 10 years |
| Library books, periodicals, etc. | 10 years |
| Equipment | 5 – 10 years |

Compensated Absences (Vacation and Sick Leave) – It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year, at which time the Library recognizes the levy. These taxes are due on February 15 with the final collection date of February 28, starting March 1 before they are added to the county tax rolls.

Change in Accounting – During the current year, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the Library's activities. GASB Statement No. 34 also requires fixed assets to be recorded with related depreciation. The following shows the restated net assets at January 1, 2004.

| | |
|------------------------|-------------------|
| Fund Balance at 1/1/04 | \$ 180,736 |
| Capital assets, net | 503,155 |
| Long-term debt | (122,827) |
| Net Assets at 1/1/04 | <u>\$ 561,064</u> |

NOTE 2. RECONCILIATION OF GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS

Total fund balances and the net change in fund balances of the Library's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

NOTE 2. RECONCILIATION OF GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS, CONCLUDED*Adjustments for Balance sheet to Statement of Net Assets:*

| | |
|---|-------------------|
| Total Fund Balance-Modified Accrual Basis | \$ 193,313 |
| Amounts reported in the statement of net assets are different because: | |
| Capital assets are not financial resources, and are not reported in the funds | 418,622 |
| Long-term liabilities are not due and payable in the current period and are not reported as a liability | (87,377) |
| Compensated absences are included as a liability | (5,995) |
| Total Net Assets-Full Accrual Basis | <u>\$ 518,563</u> |

Adjustments for Statement of Revenues and Expenses to Statement of Activities:

| | |
|--|--------------------|
| Net Change in Fund Balance-Modified Accrual Basis | \$ 12,577 |
| Amounts reported in the statement of net assets are different because: | |
| Capital outlay is not an expense of the current period | 94,315 |
| Capital costs are allocated over their estimated useful lives as depreciation | (178,848) |
| Change in the accrual for long-term compensated absences reported as an expenditure in the statement of activities but not in the fund statements | 2,551 |
| Repayments of note principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt) | 26,904 |
| Change in Net Assets of Governmental Activities | <u>\$ (42,501)</u> |

NOTE 3. CASH AND INVESTMENTS

The Library's deposits and investments at December 31, 2004 are composed of the following:

| | Governmental <u>Funds</u> |
|-----------------------------|------------------------------|
| Bank Deposits | \$ 60,579 |
| Certificate of deposit | 50,000 |
| Money Market Funds | 111,793 |
| Petty cash and cash on hand | 450 |
| Total | <u>\$ 222,822</u> |

Deposits – The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$111,433. Of that amount, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits funds with, and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments – The Library is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

The Library's investments during the year consisted solely of bank money market funds. There was \$111,793 invested in such funds at December 31, 2004. Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Library believes that the investments in these funds comply with the investment authority noted above.

NOTE 4. BUDGET INFORMATION

The annual budget is prepared by the Library Director and adopted by the Library Board of Trustees; subsequent amendments are approved by the Library Board of Trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget statement (statement of revenue, expenditures and changes in fund balance – budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is available at the Library for inspection.

NOTE 4. BUDGET INFORMATION, CONCLUDED

Excess of Expenditures Over Appropriations in Major Budgeted Funds—During the year, the Library incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

| | Amended <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------|--------------------------|---------------|-----------------|
| Salaries | \$ 405,000 | \$ 405,081 | \$ (81) |
| Contractual services | 22,000 | 34,680 | (12,680) |
| Membership and recruitment | 9,500 | 10,568 | (1,068) |
| Internet service | 12,000 | 13,822 | (1,822) |
| Processing costs | 5,700 | 7,823 | (2,123) |
| Utilities | 46,595 | 57,437 | (10,842) |
| Repairs and maintenance | 22,600 | 32,160 | (9,560) |
| Debt payments | 14,231 | 34,231 | (20,000) |
| Capital expenditures | 25,000 | 26,559 | (1,559) |

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Library.

Fund Deficits—The Library has no accumulated fund balance deficits in their reported funds.

NOTE 5. CAPITAL ASSETS

Capital asset activity of the Library's governmental activities was as follows:

| | Balance <u>1/1/2004</u> | <u>Additions</u> | Disposals and <u>Adjustments</u> | Balance <u>at 12/31/04</u> |
|---|----------------------------|------------------|--|-------------------------------|
| <u>Assets not being depreciated:</u> | | | | |
| Land | \$ 23,007 | \$ - | \$ - | \$ 23,007 |
| <u>Depreciable capital assets:</u> | | | | |
| Building and improvements | \$ 151,291 | \$ - | \$ - | \$ 151,291 |
| Furniture and fixtures | 20,000 | 17,965 | - | 37,965 |
| Equipment | 56,118 | - | - | 56,118 |
| Books, audiovisual, periodicals | 1,609,662 | 76,350 | - | 1,686,012 |
| Subtotal | \$1,837,071 | \$ 94,315 | \$ - | \$ 1,931,386 |
| Less: Accumulated Depreciation | (1,356,923) | (178,848) | - | (1,535,771) |
| Net depreciable capital assets | \$ 480,148 | | | \$ 395,615 |
| Net capital assets | \$ 503,155 | | | \$ 418,622 |

Capital assets, including library books, are recorded at cost. Depreciation expense was \$178,848 for the year ended December 31, 2004.

NOTE 6. LONG-TERM DEBT

Long-term debt is comprised of the following at December 31, 2004:

| | Interest Rate | Principal Matures | Beginning Balance | Additions (Reductions) | Ending Balance | Due Within One Year |
|------------------|------------------|----------------------|----------------------|---------------------------|-------------------|------------------------|
| Note Payable | 6.80% | 9/1/2015 | \$ 114,281 | \$ (26,904) | \$87,377 | \$ 6,904 |
| Accrued Vacation | n/a | n/a | 8,546 | (2,551) | 5,995 | 5,995 |
| | | | <u>\$ 122,827</u> | <u>\$ (29,455)</u> | <u>\$93,372</u> | <u>\$ 12,899</u> |

Annual debt service requirements to maturity for the above obligations (excluding accrued vacation) are as follows:

| Year Ended December 31, | Governmental Activities | | |
|----------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2005 | \$ 6,904 | \$ 7,327 | \$ 14,231 |
| 2006 | 6,904 | 7,327 | 14,231 |
| 2007 | 6,904 | 7,327 | 14,231 |
| 2009 | 6,904 | 7,327 | 14,231 |
| 2010 | 6,904 | 7,327 | 14,231 |
| 2011-2015 | 52,857 | 36,631 | 89,488 |
| | <u>\$ 87,377</u> | <u>\$ 73,266</u> | <u>\$ 160,643</u> |

Interest expense for the year ended December 31, 2004 amounted to \$7,327.

NOTE 7. LEASES

Operating Leases-The Library leases equipment under noncancellable operating leases. Total costs for such leases were \$18,052 for the current year. The future minimum lease payments for these leases are as follows:

| | |
|------|-----------|
| 2005 | \$ 17,421 |
| 2006 | 14,918 |
| 2007 | 413 |

In addition, the Library leases its main facility, located in Cassopolis, from the County of Cass for an annual cost of \$1 plus maintenance and repairs. Under the terms of the lease agreement, the Library was required to pay \$0 for 2004 to the County Treasurer to fund the replacement of capital items.

NOTE 8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library obtains general liability insurance to cover those risks at a cost it considers to be economically justifiable.

NOTE 9. DEFINED BENEFIT PENSION PLAN**Plan Description**

The Library participates in an agent, multiple-employer defined benefit pension plan Municipal Employees' Retirement System of Michigan (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances, and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly-available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

MERS members are required to contribute an amount varying from 0.0% to 10.0%, depending upon which plan they fall under. The Library is required to contribute at an actuarially-determined rate; the current rate is 0.0% to 21.08% of annual covered payroll, depending on the plan. The contribution requirements of plan members and the commission are established and may be amended by the MERS.

Annual Pension Cost

For the year ended December 31, 2004, the Library contributions were zero (0), which was made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined using the entry actual age cost method. Significant actuarial assumptions used included (a) 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, attributable to inflation, and (c) 0 to 4.2 percent per year attributable to merit and longevity. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over a 30-year period.

NOTE 9. DEFINED BENEFIT PENSION PLAN, CONCLUDED

Three year trend information:

| | For the year ended December 31: | | |
|--|---------------------------------|-------------|-------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Annual pension cost ("APC") | \$ - | \$ - | \$ - |
| Percentage of APC contributed | - | - | - |
| Net pension obligation | - | - | - |
| Actuarial value of assets | \$ 597,486 | \$ 605,462 | \$ 615,738 |
| Actuarial Accrued Liability ("AAL")(entry age) | 359,526 | 320,429 | 399,699 |
| Unfunded(Overfunded) AAL | (237,960) | (285,033) | (216,039) |
| Funded ratio | 166.19% | 188.95% | 154.05% |
| Covered payroll | 257,319 | 278,560 | 291,795 |
| UAAL as a percentage of covered payroll | 92.48% | 102.32% | 74.04% |

NOTE 10. FUNDS HELD BY THE MICHIGAN GATEWAY COMMUNITY FOUNDATION

The Library is the beneficiary of endowment funds at the Michigan Gateway Community Foundation that are considered permanent endowments to benefit the Library. The endowments are within the Foundation and not part of the Library's General Fund. Investment earnings are reinvested into the endowment. The amount of the endowment funds held at Michigan Gateway Community Foundation in the Cass District Library Fund approximates \$1,054.

During the year, the Library did not withdraw past earnings on principal from the endowment funds held at the Michigan Gateway Community Foundation.

NOTE 11. DESIGNATED FUND BALANCE

Fund balance has been designated by the Board for the following purposes:

| | |
|----------------------|------------------|
| Vehicle purchases | \$ 9,000 |
| Vacation accrual | 14,934 |
| Technology | 16,000 |
| Capital improvements | 10,000 |
| Main library | 15,000 |
| | <u>\$ 64,934</u> |

NOTE 12. RECEIVABLE AND PAYABLES

Receivables as of December 31, 2004 for the Township's general fund consisted of \$682,100 of taxes receivable for next years levy.

Payables as of December 31, 2004 for the Township's general fund consisted of \$13,407 of normal trade payables.

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2004

| | Originally Adopted Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|---------------------------------|--------------------------|--------------------------|--|
| Revenues: | | | | |
| Taxes | \$ 652,000 | \$ 652,000 | \$ 654,946 | \$ 2,946 |
| State Sources | 29,790 | 27,000 | 31,437 | 4,437 |
| Penal Fines | 158,000 | 158,000 | 146,474 | (11,526) |
| Fees and Book Fines | 3,500 | 3,500 | 3,988 | 488 |
| Investment Income | 1,500 | 1,700 | 5,485 | 3,785 |
| Local Contributions and Other | 29,900 | 41,000 | 49,045 | 8,045 |
| | <u>\$ 874,690</u> | <u>\$ 883,200</u> | <u>\$ 891,375</u> | <u>\$ 8,175</u> |
| Expenditures: | | | | |
| Salaries | \$ 405,000 | \$ 405,000 | \$ 405,081 | \$ (81) |
| Payroll taxes | 30,500 | 30,500 | 29,109 | 1,391 |
| Employee benefits | 94,765 | 92,200 | 85,570 | 6,630 |
| Staff training | 5,500 | 5,500 | 4,649 | 851 |
| Office supplies | 17,250 | 17,300 | 16,653 | 647 |
| Audiovisual, books, and periodicals | 78,000 | 80,000 | 76,350 | 3,650 |
| Professional fees | 22,675 | 17,675 | 11,105 | 6,570 |
| Contractual services | 20,000 | 22,000 | 34,680 | (12,680) |
| Membership and recruitment | 10,500 | 9,500 | 10,568 | (1,068) |
| Internet service | 12,000 | 12,000 | 13,822 | (1,822) |
| Insurance | 10,000 | 14,000 | 13,529 | 471 |
| Processing costs | 5,650 | 5,700 | 7,823 | (2,123) |
| Travel | 8,500 | 8,800 | 6,108 | 2,692 |
| Programs | 11,850 | 10,350 | 8,479 | 1,871 |
| Utilities | 55,650 | 46,595 | 57,437 | (10,842) |
| Repairs and maintenance | 30,550 | 22,600 | 32,160 | (9,560) |
| Miscellaneous | 14,276 | 14,895 | 4,885 | 10,010 |
| Debt payments | 14,231 | 14,231 | 34,231 | (20,000) |
| Capital expenditures | 20,000 | 25,000 | 26,559 | (1,559) |
| Total expenditures | <u>\$ 866,897</u> | <u>\$ 853,846</u> | <u>\$ 878,798</u> | <u>\$ (24,952)</u> |
| Excess of revenues over expenditures | <u>\$ 7,793</u> | <u>\$ 29,354</u> | <u>\$ 12,577</u> | <u>\$ (16,777)</u> |
| Fund Balance-Beginning of Year | <u>180,736</u> | <u>180,736</u> | <u>180,736</u> | <u>-</u> |
| Fund Balance-End of Year | <u><u>\$ 188,529</u></u> | <u><u>\$ 210,090</u></u> | <u><u>\$ 193,313</u></u> | <u><u>\$ (16,777)</u></u> |